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STATE OF THE STATE/BUDGET MESSAGE

TO THE

HONORABLE MEMBERS OF THE 81st GENERAL ASSEMBLY

BY

GOVERNOR JAMES R. THOMPSON

MARCH 7, 1979

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UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

Speaker Redmond, President Rock, my fellow Constitutional officers, distinguished members of the 81st General Assembly, honored guests, citizens of the State of Illinois...

At your kind invitation, I am here to report to you on the state of the State of Illinois and the budget which I am submitting today.

The state of our State is good. The budget I have recommended is balanced. It proposes that we increase spending next year by only 2% from all funds, well within our nation's anti-inflation guidelines, and 7.3% in the general funds, below the rate of inflation.

Even with the addition of the increases I recommended in road fund resources on Monday of this week, vital to the economic and social life of this State, spending will be within presidential guidelines. Clearly, we in Illinois are practicing what the nation preaches -- fiscal conservatism, balanced budgets, economic growth and containment of the cost and size of government. I pledge to you my co-operation to extend those goals in the next year. I ask your help in achieving them.

My first Administration is now written. While it remains to be judged by history, it was judged by our people. The record of the 80th General Assembly is now written, and it, too, will be judged by history. But with few voluntary, and even fewer involuntary exceptions, most of the members of that body were judged by the voters and returned to office. Clearly, in the eyes of our fellow citizens, we did most things right in the last two years. We were effective partners in government, if not always in politics or philosophy.

If John Adams was right, and the essence of "good and free" government is nothing less than the "effectual control of rivalries", then I have much to thank you for. Working together we have made government "good and free" in the State of Illinois.

I hesitate to recite the history of the past two years for fear it will be taken by some as preoccupation with what has been done; that we lack resolve to do what must be done. But failure to recall the past can be doubly dangerous. We risk forgetting where we came from and we risk forgetting how we got here. In plotting our course for the coming year, therefore, we must not lose that which has already been achieved.

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Two years ago, as we saw state government sliding toward bankruptcy, we simply said "No" to deficit spending. We balanced the budget. We refused to raise taxes to meet spending; we refused to spend all tax resources. We have built a modest, but nearly sufficient reserve to enable us to pay our bills on time and guard against emergencies. Our fiscal house is in order.

When we saw inefficiency in government, we began the difficult process of cutting fat and waste and red tape and overlap to get more for less. We began with the Governor's Cost Control Task Force. We have already implemented scores of its recommendations and more are proposed in this budget book. Before the end of this current year, we will know which of the remaining recommendations are right and can be implemented and which are wrong and should be discarded. The first cost controlled was that of the Task Force itself. It cost the people of the State not a penny.

When we saw the most urgent needs of our people in danger of not being met we moved quickly to set things right. Though enrollment continued to decline we approved the highest level of funding in the history of education in Illinois. Public Aid rolls were reduced while job rolls were increased. Administration and resources were strengthened for Children and Family Services and Law Enforcement. Economic Development has been moved up on the priority list of Illinois government.

Let me pause to say a word here about the special relationship between Law Enforcement and Corrections. We all believe in law and order and are willing to pay its price. We all understand that some places must be maintained to keep those who, by any standards, have forfeited their right to live in a free society. And we are willing to pay that price as well. In the last session of the General Assembly we compromised on a tough, but fair sentencing law -- Class X. No one achieved all they hoped to achieve, but that is the nature of the legislative process. And we are currently studying together the question of how well the new law works in practice. But recent news stories have suggested that the Administration was contemplating a massive release of inmates of the penitentiary system in order to relieve overcrowding. The implication of those stories is false. Over a year ago, as part of a broad program seeking to respond to rising prison population, I asked the Prison Review Board to determine whether there were any significant numbers of prisoners who, convicted of lesser offenses, might be appropriate candidates for early release after acceptable adjustment and good behavior.

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The Board is studying the records of hundreds of inmates, but it is unlikely that more than a handful will ever qualify. I do not intend to gut the Class X law we all worked so hard to pass. I do not intend to evade my responsibility to manage the prison system of this State by unbolting the jailhouse doors and no "Pardon me, Jim" song is going to be written about the Governor of Illinois.

In fact, we're not getting softer, we're getting tougher, and fairer. Our response to the violence at Pontiac last summer has been rebuilding, resources, and reform. We seek to end deadlock as quickly as we can, but the rights of inmates must be balanced with the need not only to protect them, but also to protect the lives and security of those brave men and women who serve as correctional officers within the penitentiary walls. And just two days ago, a long, patient and thorough investigation by members of the Department of Law Enforcement resulted in the indictment of 31 inmates of Pontiac for offenses ranging from murder to destruction of property. The matter is now entrusted to the judicial system of the State and we expect that justice will be done.

When we saw that Corrections administration was weak, we faced up to it. Changes were made. And those who have the responsibility now are not afraid to use it. A little over a week ago, we began the process of sweeping gang control from Stateville Penitentiary. We are also sweeping accumulated years of guns, knives, narcotics, fear, terror and other relics of a system which must never again reign in a penitentiary in Illinois. But I need the help of every member of this body to build a better system and I'm not too proud to ask for it.

In the last two years we have seen jobs lost to the people of Illinois, but we've gone to work, and had extraordinary success in gaining new ones. The combined activity of the Governor and the General Assembly have got us back on the track, but we need to do more.

Finally, in the last two years we have achieved one of the highest priorities of our people. Fiscal conservatism and balanced budgeting has meant that the cost of Illinois government has actually been shrinking as a percentage of the total income of our people. Government is getting smaller, as well as better, in Illinois. I'm proud of that. I think you ought to be too. How many other governments in this country have delivered on that promise?

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Taken together, these achievements, with hundreds of others, serve as the building blocks of a great transition that has swept across our state government. It is a transition of hope. It is a transition of responsibility. It is a transition of realism.

The eminent philosopher, Alfred North Whitehead, said: "The art of progress in this world is to preserve order amid change and to preserve change amid order." In a way, that has been the watchword of our plans and hopes for state government in Illinois.

It means government should stop promising more than it can deliver...and begin delivering what it has promised.

It means government should learn to do more with less.

It means government should stop marching off in bold, but blind directions...and begin boldly to fashion new directions for the programs at hand.

And it means government should find the boundary of its limits...and ask itself how deeply it dares reach into the pockets of its citizens.

These are our hopes for the future, but let us not be deceived that they are simple goals. "Simplicity," said Henry Adams, can be "the most deceitful mistress that ever betrayed man."

In the last four months we have seen two extraordinary events in Illinois that prove the point.

In November, by a margin of 83 per cent, our voters called for a ceiling on taxes and spending at the state and local level. But they did not ask, nor do they ask now, for Draconian measures that would cripple services or endanger our economy. They asked for a reasonable relationship between what they earn and what government spends.

We saw also a second event of even greater, but opposite, proportions.

Last Tuesday, voters in the primary election defeated the incumbent Mayor of Chicago after a campaign which boiled down essentially to one issue. It was not taxes. It was not spending. It was not fiscal austerity. The issue was how well government did in providing the most basic of services.

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Let us take heed that as we move to make changes in the substance of government, we remember that the public wants change...but still retains its expectations of us...and, above all, still demands the services that only government can provide.

Public expectations may well be the theme for the coming year. But let us remember an old political maxim. The budget has often been described as a pie to be divided. Sometimes, however, it has been treated as "pie in the sky". You can't divide "pie in the sky" and, moreover, you can't eat it. A Chicago newspaper noted the other day that budget making was "not a principled thing" and I agree. A budget is the product of pulls and tugs, demands and clamor and eventual compromise. But that does not mean that because the task of budget making is difficult we must abandon our principles. In this session, hundreds of voices will be heard to cut spending...to increase spending...to cut taxes...to increase taxes...to rebate taxes...to credit taxes...to rearrange priorities and to do a thousand other things.

We must listen to these voices. We must fully debate their proposals. But we must not build up expectations by our people that cannot be fulfilled.

There simply are no easy answers to taxes and spending and setting limits in government.

For every increase you propose in one program, there must be a decrease in another.

For every cut you propose in a program, you must explain your reason to those who will be hurt, or think they will be hurt.

For every reduction in revenue achieved another tax must be raised or a program reduced.

These are the realities of the finances of government. You and I understand this...and the people of Illinois do, too. But if we raise the public's expectations with things that can never be achieved we risk losing, as never before, both the public's trust in our leadership and their faith in our system of government.

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For months I have worked and reworked and agonized over the alternatives to making state and local government live within the means of our people. That was the promise I agreed to fulfill. But there are no easy answers...no cheap solutions...no populist themes we can stretch into programs. The results of my efforts come from pulling and tugging, and setting benefits against drawbacks.

How, for example, do we keep spending within the limits of our resources...but leave government the flexibility to respond to emergencies and to provide essential services?

How do we know when government is too large...or when it is not large enough?

How do we make it tougher for government to say "Yes" to new taxes...and easier for the public to say "No"?

How do we keep government from taking more in real dollars from one year to the next...without slashes in the services that affect people's lives?

How can the public have a more direct voice...without violating essential principles of representative government?

These are the questions we have had to confront...and we think we have answered them with the proposal before you.

But if one central theme emerged from our efforts, it is that the first business of government in Illinois should be to not take extra dollars out of the taxpayer's pocket in the first place. And that should be the starting point for all of us here today.

Today I present two major issues before you.

First, I ask you to give shape to a budget that will meet our needs for the next fiscal year.

Second, I ask you to give life to the promise to shape...and limit...state and local taxes and spending for many fiscal years to come.

The budget I propose is the most we can do with the resources we have. It spends not a dollar more than essential programs can do without. It takes not a penny more from the taxpayer's pocket than necessary to maintain basic services.

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The tax and spending limits I propose will assure that state and local government will continue to live within the means of our people...for the future benefit of our people.

These limits respond to the people's belief that government is big enough...if not too big.

They would make it tougher for government to raise new spending and taxes...and easier for the people to resist such a proposal.

They keep spending within the resources of a real-world economy...yet leave government with the flexibility to provide essential services.

They improve the balance of power between all branches of government...and strengthen the power of the people to react to their government.

They limit spending to increases in personal income...and restrain government from taking more in real dollars from one year to the next.

They assure, through constitutional imperative, that a necessary 2 per cent cash reserve be retained from general funds and the road fund.

And they prevent taxing and spending from running amok...without freezing our ability to respond to real emergencies.

At the state level, these limits would apply to general and road fund appropriations...the core of state spending...and to all taxes.

At the local level, they would apply to all property taxation by all units of government...including school districts.

In framing these proposals, I have relied heavily on the recommendations of the Governor's Advisory Commission on Taxation...which sought the people's advice...and have taken account of the views of members of the General Assembly, many of whom have previously advanced their own limitation plans.

These proposals have been difficult to frame. They will be difficult to write in constitutional and legislative language. They will demand difficult debate. They can be improved. They must be passed.

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For the state level, I propose amendments to our Constitution and our laws...

First, to force the Governor to limit proposed general and road fund appropriations to no more than 98 per cent of estimated available funds...and to force the General Assembly to limit its appropriations to the same level.

Second, to mandate that no increase in spending from the general or road funds...no matter how great new revenues are expected to be...could exceed the rate of increase in personal income of the people of Illinois in the preceding year...except in an emergency or in other specific circumstances.

Third, to give the people a chance to say no to any state tax increase which fails to muster a three-fifths majority in the General Assembly.

Fourth, to require a three-fifths vote in the Assembly to override a reduction veto of any spending bill...the same majority now needed to overturn an item veto.

Fifth, to provide that state mandates for local governments are permissive to the extent that the state fails to fully fund any new or expanded programs.

I will also be proposing limitations on local government spending along with improvements in the ways local taxes are collected and spent...

First, to put an outside limit on increases in property taxes at the level of growth in personal income, with exceptions permitted only when voters approve them through a referendum.

Second, to permit voters to roll back any existing property tax rate by up to 15 per cent...an action which could be repeated after two years.

Third, to mandate a "truth-in-taxing" policy under which voters would have fair warning and a fair hearing whenever any increase in property taxation is proposed.

I further propose that it be made easier for local taxpayers to protest their taxes and that local governments improve assessment practices.

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These proposals would not call for an arbitrary limit on taxes or spending at a fixed percentage of personal income... for to set such a limit is to create a target which could increase, rather than control, taxes and spending.

This plan does not presume that the state will dictate local taxing and spending priorities...only that it would impose an outside limit within which local officials...and the taxpayers...can shape those priorities. I do not think we possess the wisdom in Springfield to impose uniformity on spending for the needs of 5,500 taxing districts. But the people of those districts do.

This plan does not call for a referendum on every tax increase for that cuts too far against representative government. But it would give the people a chance to speak out on state taxing decisions whenever three of five of their state legislators cannot agree.

At the local level...the government closest to the people... this plan would give taxpayers ample opportunity for direct votes on taxing and spending issues...up or down.

And, finally, this plan would not encourage the state to amass huge cash surpluses, as has happened in other states.

I do not believe in a system of taxation which salts away huge amounts of windfall revenue. I believe we shouldn't take extra dollars out of taxpayers' pockets in the first place. And if extra revenues ever do pile up, I will propose that we cut the tax that produced them.

Enactment of these limitations would force us all to do all we could to make more sense out of the dollars we spend on essential services.

This is what we have tried to do in drawing up the budget proposal before you today...and that is what we must continue to do as this proposal moves off your desks and into law over the next 115 days.

The bottom line of this budget calls for \$11.8 billion in appropriations...an increase of 2 per cent over the current year.

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If the General Assembly responds favorably, however, to the proposals I made on Monday, the bottom line would be \$12.3 billion...an increase of 6.8 per cent...still below the rate of inflation.

General fund spending is proposed at \$7.4 billion, an increase of 7.3 per cent. Because this is also below the rate of inflation, state government under this budget would decline in size relative to the economy.

General funds spending would also decline as a percentage of personal income...from 6.4 to 6.3 per cent...again, an indication that we can live within our means.

Like the budgets I have proposed in each of the last two years, it is balanced.

But it is a delicate balance. It could be upset by excesses in spending...which we cannot tolerate...or by bumps in the economy or in federal spending patterns...which we cannot control.

This budget proposes no new taxes. And, with the exception of the necessary increases in the gas tax and other user fees proposed to avert a crisis in transportation...and in our economy... we will need no tax increases this year.

For some state agencies this is essentially a zero-growth budget. For some, it is a budget calling for less than last year's spending.

It would maintain a modest...but vital...reserve of \$136 million, less than two per cent of all general funds. This is far less than most other states put aside against the day when an emergency or disruption in cash flow demands fast fiscal action.

It has taken two years to build that fund up from the scant \$52 million we found in the bank on June 30, 1977. We did it with good management of our programs; with good fortune in one-time revenues, and with the cooperation of this Assembly.

There will be pressures to spend our reserves. But we cannot.

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They must be available if our economy falters for even a matter of months, as most economists predict it will. Or if the storm clouds over federal funding in Washington... from where nearly a quarter of our revenues flow...lead to wholesale slashes in revenue sharing, as have been threatened. Or to selective cuts in health, welfare, services and jobs program funds, as have become almost certain.

This budget anticipates no one-time, windfall, revenues... for there will be none. If current efforts to retrieve once lost federal funds in social services are realized, however, I will notify this Assembly of that fact.

Nor can we expect Washington, except for transportation resources, to increase its support in any significant degree this year. Indeed, we cannot expect Washington even to keep that present support for our programs in step with inflation in many areas.

These are the realities that shaped this fiscal plan.

This budget is tight...but we have taken extreme pains to ensure that what new resources are available will go directly to improve those programs that directly affect people's daily lives.

And as we look at and argue over the line-by-line nuts and bolts of this budget, we must keep in mind that the people are seeing a much bigger picture...the picture of what their government does for...or to...them.

This budget, like those I have proposed over the past two years, would devote by far the largest share of new general revenue funding to our schools and colleges.

The education of our children must be our first priority... and that priority is reflected in this budget which would devote almost 40 per cent of general revenue funding appropriations to our schools. The \$3.4 billion in education appropriations that I am recommending from all funds is the highest in our history.

There will be demands that we spend more...but those demands cannot be met without crippling other services or driving taxes up. Across the community of Illinois I sometimes hear that educational dollars are too few. Rarely do I hear acknowledgement that elementary and secondary enrollment is sharply declining or that each year's budget has recommended record funds.

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Our schools, therefore, must improve their management of the taxpayers' dollars. They must capitalize on this time of declining enrollments to consolidate overlapping facilities, to reduce unnecessary administrative costs and to make sure that every dollar possible is getting through to the classroom.

This budget--if the General Assembly accepts the proposed increases in road fund revenues and begins to cut down on diversions from that fund--would help avert catastrophe in our transportation system.

We have exhausted all other resources. We cannot expect more than our fair share of federal aid for our roads and bridges. We cannot squeeze more dollars out of other basic services without hurting the people who depend on them. We cannot pile up more bonded debt without new revenues to pay interest costs or risking damage to our credit rating.

I believe the people of Illinois will understand and accept the need for new dollars to maintain our transportation system. It is the lifeblood of our economy...their jobs depend on it...and \$20 per year, or approximately a nickel a day, is a small price to pay to keep that lifeblood flowing.

-- This budget would enable us to strengthen services for children and families, focus more of our attention on programs designed to help keep families intact, and step up our efforts to cope with epidemic reporting of child abuse and neglect.

We must be able to respond as fast and effectively as humanly possible..24 hours a day..to help children in trouble.

And this General Assembly must respond to the shortfall now--even before you act on this budget--by approving the supplemental appropriation for child abuse caseworkers that has been awaiting your action for months.

You are all wise and compassionate people and I cannot believe that you will close your ears to the cries of abused and neglected children. We need action...now.

-- This budget would permit us to expand immunization programs and strengthen other public health services to help reduce our unacceptably high infant mortality rates.

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-- It would let us increase inspections of medical clinics and abortion facilities to ensure that they are providing services in accord with the letter...and spirit... of the law.

-- This budget would provide for a modest increase in funding for welfare and medicaid to help absorb new applicants we anticipate as the economy slows over the coming months.

That increase would have to be much higher had we not succeeded over the past two years in reversing a pattern of caseload growth, in tightening up management of these programs, and in moving record numbers of recipients off the rolls and into private sector jobs.

-- This budget would let us continue to clean up the sorry mess in our prisons that is the legacy of years of neglect. We need to ease overcrowding...to strengthen security...to beef up programs to keep offenders from falling again and again into criminal life.

-- This budget assumes that we will make continued progress in implementing the recommendations of the Governor's Cost Control Task Force.

Over the past six months, we have put in place 174 of the ideas proposed by the Task Force...yielding financial benefits of more than \$197 million. In the months to come, we will take action on as many of the remaining ideas as we find practical as rapidly as possible.

But the dollars we have already saved--and those we hope to--are not always on the table for instant spending.

Some of these funds are federal dollars that are not at our disposal. Some are savings that will accrue to the private sector. Others are one-time savings already spent by the General Assembly or built into the projected resources of this budget proposal. And, not all of the Task Force recommendations mean savings. Some of their proposals call for new spending...the price of improving services to people.

We must also recognize that not every one of the Task Force ideas is good. Some may be just plain wrong. Others, like the closing of some institutions, simply cannot be carried out without crippling services people need.

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And, most importantly, we must recognize that the people are not clamoring for us to accept the notion that a penny saved is a penny we have to spend. If any of us are hearing that message, there's a lot of static in our ears.

-- This budget would provide the framework for two major reorganization initiatives we believe must be carried out to improve services to people, to our towns and cities, and to the private business sector.

First, I propose a plan to consolidate all state programs affecting civil rights into a new Department of Civil Rights.

This new agency would combine the Department of Equal Employment Opportunity, the Fair Employment Practices Commission and the Commission on Human Relations. It would at once streamline and coordinate these programs, enable us to respond faster and more effectively to civil rights complaints, and put an end to the need for people to go from pillar to post to get help.

Second, I propose that the Department of Business and Economic Development and the Department of Local Government Affairs, together with certain programs from the Governor's Office of Manpower and Human Development, be merged into a single Department of Economic and Community Development.

This new agency would assist in materially strengthening our economy as well as underscoring the truism that, for most of Illinois, community development is economic development. And the time has come in Illinois for major new initiatives to help small business people -- for small business people are the lifeblood of almost every community in Illinois.

Finally, this budget contains the strongest capital construction program we can mount without endangering our triple-A bond rating or curtailing critical services.

For the fourth year in a row, appropriations from bond funds would be reduced under this budget. This would mean fewer bond sales and limited growth in debt service. Because we have controlled all spending over the past two years, we can proceed with the \$2.2 billion capital program proposed in this budget and still retain the confidence of the financial market place.

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It would fund scores of essential projects...for transportation, prison facilities, a new State of Illinois Center in Chicago, schools and colleges, waste water treatment, energy and coal development, and more.

Every project proposed is vital...to improving services...to spurring the creation of new jobs...to cleaning up our water...to developing new energy resources.

There is no pork in this barrel.

Indeed, there is no pork in this budget. It is a budget we can live with. It is the kind of budget we must live within.

It proposes no more than we must do. It would permit us to spend no more than we can. It would maintain and improve programs vital to the people we serve. It would leave us with just enough cash in the bank to help us over the hump in an emergency.

Equally important...this budget, if it survives the legislative process in like form, will prove that we can live within the framework of the ceiling on taxes and spending that I have outlined today.

The 81st General Assembly and my Administration have much new business on our agenda. We also have unfinished business from years past which will demand much of our time, our energies and our good will.

I need not remind you that we are under mandate of the Constitution...and the voters...to formulate a replacement tax for the corporate personal property tax.

We cannot delay any longer. We must act soon to plug the \$400 million gap that our failure to act will leave in the budgets of local governments and school districts.

To begin the debate anew, I will shortly propose a bill around which I trust we can develop a replacement tax acceptable to the business community. This bill will also suggest a means of collecting and distributing replacement tax revenues without creating new bureaucracies in Springfield.

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To speed the debate, I will call for a meeting of representatives of Illinois commerce and industry in hopes that we can hammer out a fair compromise proposal.

Reform in the administration of the systems of workmen's compensation and unemployment compensation are important to the advancement of our economy. Measures are now, or will be, pending in the General Assembly. While the debate goes on, I think it is incumbent upon the executive branch to press forward with administrative reform not requiring legislative confirmation, and to explore the ground which labor and business may view as common to their interest and to the welfare of Illinois working men and women.

I am not a member of the General Assembly and I have no constitutional role in the process. I recognize that. I simply add my plea, as Governor, and as a citizen of the United States, for the quick ratification of the Equal Rights Amendment. I cannot understand why we in Illinois are unwilling to help our fellow American citizens share in the benefits of a constitutional provision which we in Illinois have enjoyed without ill effect, for nine years.

And now is the time, too, I believe, to move to merit selection of the judiciary. We can devise a plan that will satisfy all areas of the state. Why do we not let our people decide?

These, and many other proposals, will occupy our time for the year of 1979. I have full confidence in the wisdom and compassion of this body. It is a full agenda, but the centerpiece must be a budget in balance. Upon this resource, all else depends.

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